Notes to the consolidated financial statements (continued)

28. Subsidiaries

A list of the Group's significant subsidiaries, their country of incorporation and principal place of business, the Group's percentage shareholding and an indication of their nature of business is included on Annexure A of these financial statements.

Effective 1 August 2019 the Group's investment in Adcock Ingram, previously an associate, was recognised and consolidated as a 51.4% held subsidiary following the dissolution of the Adcock Ingram Broad-Based Black Empowerment Scheme. No additional consideration was paid for the ordinary shares received on the dissolution of the scheme.

	Derecognition of associate	Recognition of subsidiary (at carrying values)	Recognition of NCI, fair value and intangibles	**Impact on financial position**
Property, plant and equipment	–	1 534 423	–	**1 534 423**
Right-of-use assets	–	297 373	–	**297 373**
Deferred taxation	–	(96 342)	(1 188 176)	**(1 284 518)**
Interest in associates and joint ventures	(5 057 908)	519 668	–	**(4 538 240)**
Investments and advances	–	29 627	–	**29 627**
Inventories	–	1 499 187	96 930	**1 596 117**
Trade and other receivables	–	2 065 534	–	**2 065 534**
Cash and cash equivalents	–	467 913	–	**467 913**
Post retirement medical aid obligations	–	(15 660)	–	**(15 660)**
Lease liabilities	–	(327 164)	–	**(327 164)**
Trade and other payables and provisions	–	(2 234 860)	–	**(2 234 860)**
Taxation	–	(374)	–	**(374)**
Net tangible assets	(5 057 908)	3 739 325	(1 091 246)	**(2 409 829)**
Non-controlling interest	–	(3 196)	(3 386 266)	**(3 389 462)**
Intangible assets	–	432 322	3 714 234	**4 146 556**
Goodwill	–	176 339	1 476 396	**1 652 735**
Net assets recognised	(5 057 908)	4 344 790	713 118	**–**

Subsequent to 1 August 2019 the Group purchased an additional 1 597 100 Adcock Ingram ordinary shares for R90 million raising the Group's effective economic interest in Adcock Ingram to 52.3%. During March 2020 Adcock Ingram purchased 4 014 038 of its own ordinary shares from shareholders other than the Group, which raised the Group's effective holding to 53.6% and resulted in a R154 million Group cash outflow.

Management engaged with an expert in the valuation and business combination industry to perform a PPA on the date effective control transferred to the Group. The PPA was finalised in the current financial year.

The following key assumptions were applied as part of the PPA process:

- Multi period excess earnings method ("MEEM") has been used to perform the valuation of the intangible assets. MEEM measures the excess after tax cash flows attributable to the intangible asset being valued after providing for the appropriate returns on other identifiable assets;
- four CGU's were identified namely, Over The Counter ("OTC"), Prescription, Consumer and Hospital. Revenues attributable to each CGU were identified and valued separately with growth rates applied per CGU between the range 5% – 12%;
- future capex is expected to increase in line with depreciation;
- an average discount rate between a range of 13.5% – 14% was assumed in future cash flows; and
- net working capital per CGU was determined based on historical actual figures and ranged between 19% – 30% of revenue going forward.

At recognition and as part of the PPA process, the assets and liabilities at effective date was assessed to their fair value, resulting in inventory fair value upliftment of R97 million. The upliftment was based on historical margins on inventory held at acquisition.

At the effective date of recognition of Adcock Ingram as a subsidiary, the previously held equity interest was remeasured at fair value in terms of IFRS 3, and a loss of R218 million was recognised. The resulting fair value of R5 058 million was used as the consideration transferred to determine the goodwill and NCI recognised.

28. Subsidiaries (continued)

Goodwill amounting to R1 653 million was recognised with an NCI amount of R3 389 million, which was accounted for as the proportionate share of the net identifiable assets.

As part of the PPA, intangible assets of R4 146 million were identified and valued. The make up of these intangible assets consist of R3 352 million brands with an indefinite useful life, R606 million license agreements with an indefinite life and R188 million license agreements with a useful life of 20 years.

The intangible assets and goodwill were assessed for impairment, at 30 June 2020, by applying a value-in-use method with the following assumptions:

- discounted cash flow performed at a CGU divisional level (OTC, Prescription, Hospital, Consumer);
- growth rates, revenue in each CGU is expected to grow between 1.3% and 7%, growth rates are in line with medical inflation rates and CPI mid-points, a 6.9% Single Exit Price increase which is in line with medical inflation rates and CPI mid-points incorporated in growth rates;
- pre-tax discount rate applied of 16.73%;
- net working capital increases expected in line with historical increases; and
- capex has been based on maintaining existing assets

The recoverable amount exceeded the carrying value and no impairment was recognised.

Adcock Ingram contributed R6 855 million to revenue and R822 million to operating profit, had the acquisition taken place 1 July 2019 the contribution to revenue would have been R7 347 million and R862 million to operating profit. Trade receivables are stated net of loss allowances of R32 million and there were no significant contingent liabilities.

Contribution to non-controlling interests	2020 R'000	2019 R'000
Profit allocated to non-controlling interests		
Adcock Ingram	284 773	–
Non-controlling interests of Adcock Ingram	279 379	–
Non-controlling interests of Adcock Ingram subsidiaries	5 394	–
Other non-controlling interests	(8 390)	28 648
Total profit allocated to non-controlling interests	**276 383**	28 648
Accumulated non-controlling interests		
Adcock Ingram	3 302 519	–
Non-controlling interests of Adcock Ingram	3 299 800	–
Non-controlling interests of Adcock Ingram subsidiaries	2 719	–
Other non-controlling interests	179 337	304 620
Total accumulated non-controlling interests	**3 481 856**	304 620

Notes to the consolidated financial statements (continued)

28. Subsidiaries (continued)

Contribution to non-controlling interests	2020 R'000	2019 R'000
The summarised financial information below of Adcock Ingram represents amounts before intergroup eliminations.		
Statement of financial position items		
Current assets	**3 820 238**	–
Non-current assets	**3 317 325**	–
Current liabilities	**(2 149 409)**	–
Non-current liabilities	**(449 653)**	–
Non-controlling interests	**(2 719)**	–
Equity attributable to the owners of the company	**(4 535 782)**	–
Statement of comprehensive income items		
Revenue	**6 854 928**	–
Expenses	**(6 214 078)**	–
Profit attributable to the owners of the company	**646 244**	–
Profit attributable to non-controlling interests	**(5 394)**	–
Profit for the year	**640 850**	–
Other comprehensive income attributable to owners of the company	**665**	–
Total comprehensive income for the year	**641 515**	–
Dividends paid to non-controlling interests	**6 713**	–
Statement of cash flow items		
Cash inflow from operating activities	**479 347**	–
Cash inflow from investing activities	**11 670**	–
Cash outflow from financing activities	**(205 792)**	–
Net cash inflow	**285 225**	–